

## **RUGGEDCOM INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FOURTH QUARTER AND YEAR ENDED MARCH 31, 2011**

**Dated: May 25, 2011**

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial condition and cash flows of RuggedCom Inc. ("RuggedCom" or the "Company") for the three month period and fiscal year ended March 31, 2011 compared with the three month period and fiscal year ended March 31, 2010. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal years ended March 31, 2011 and March 31, 2010, the notes thereto and the auditors report thereon.

All amounts in this MD&A are in US dollars unless otherwise indicated. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee. This MD&A is dated May 25, 2011 and is current to that date, unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) as well as the Company's website at [www.ruggedcom.com](http://www.ruggedcom.com).

#### **NON-GAAP MEASURES**

The Company reports its financial results in accordance with Canadian generally accepted accounting principles ("GAAP"). However, this MD&A contains references to certain non-GAAP financial measures such as EBITDA and EBITDA Margin. Non-GAAP financial measures are used by management to evaluate the performance of the Company. Non-GAAP financial measures do not have any meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers. Non-GAAP financial measures used herein have been applied on a consistent basis. "EBITDA" means earnings before interest, income taxes, depreciation and amortization. "EBITDA Margin" means the percentage obtained by dividing "EBITDA" by revenue. "EBITDA" is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that EBITDA and EBITDA Margin are useful supplemental information as they provide an indication of the results generated by the Company's main business activities before taking into consideration how these activities are financed and taxed and also prior to taking into consideration asset depreciation. Investors are cautioned that non-GAAP measures, such as those presented herein, should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating and investing activities as measures of liquidity and cash flow.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this MD&A, particularly statements regarding future economic performance and finances, plans, expectations and objectives of management, may constitute "forward-looking" statements which reflect our current views with respect to future events and financial performance. When used in this MD&A, such forward-looking statements use words such as "may", "will", "expect", "believe", "anticipate", "plan", "intend", "estimate", "project", "continue" and other similar terminology of a forward-looking nature or negatives of those terms. These forward-looking statements are based on certain assumptions by management, certain of which are set out herein. The forward-looking statements appearing in this MD&A reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual future results, performance or achievements to differ materially include, but are not limited to, increased efforts by competitors to compete in our markets, growth in our key markets, our ability to manage our growth, our dependence on the electric power industry, the impact of the global financial crisis, foreign currency fluctuations, our ability to identify and integrate future acquisitions, changes in environmental and other regulation, our reliance on key personnel, our reliance on third-party suppliers, contract manufacturers and channel partners, our ability to protect our intellectual property, rapid technological change, potential product liability claims, our dependence on certain licensed intellectual property, and potential infringement by us of others' intellectual property rights, including our use of open source software.

RuggedCom is subject to significant risks and any past performance is no guarantee of future performance. RuggedCom cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on RuggedCom's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. This MD&A offers a brief overview of some of the risk factors to be considered in relation to RuggedCom's business. This list may not be exhaustive and new risk factors emerge from time to time. Please see the section "Risks and Uncertainties" for further information. We disclaim any intention or obligation to publicly update or revise any forward-looking statements after distribution of this MD&A, whether as a result of new information, future events or other circumstances, except as may be required pursuant to applicable securities laws.

Additional risk factor discussion can be found in the Company's continuous disclosure filings, reports and other filings with securities commissions and regulatory authorities in Canada and filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## RUGGEDCOM INC.

RuggedCom is a leading provider of rugged communications networking solutions designed for mission-critical applications in harsh environments. When used outside of benign office environments, communications networking equipment can be exposed to harmful conditions that impact network reliability, throughput, availability, security and data integrity. The Company's solutions are designed for use in harsh environments such as those found in electric power substations and "Smart Grids", intelligent transportation systems, industrial process control and military applications. RuggedCom's robust technology solutions include proprietary hardware (Ethernet switches, network routers, wireless devices, serial servers and media converters), software (proprietary embedded software and application software) and professional services.

RuggedCom's solutions facilitate the extension of Internet Protocol ("IP") based communications networks from benign office environments to harsh non-office environments. IP-based communications networks are faster, more flexible and offer greater functionality than the legacy, serial, low-speed communications systems currently used in most harsh environments. The extension of IP-based communications networks enables the seamless flow of information between an enterprise's non-office environment and its office environment. Moreover, the implementation of a common networking technology and infrastructure across an entire enterprise improves overall efficiency, increases the ability to monitor and secure operational assets and reduces costs associated with installation, integration, maintenance, parts and training.

RuggedCom continues to execute on its core strategies to capitalize on the opportunities presented by the Industrial Ethernet, Industrial Wireless, Cyber Security, and Smart Grid trends within the Electric Power, Transportation Systems, Industrial Processes and Military markets. During fiscal year 2011 RuggedCom:

- introduced the RX1510, RX1511 and RX1512 models, compact and cost-effective versions of the RuggedBackbone™ RX1500 family of integrated layer 3 switching and routing devices;
- together with Siemens Energy, Inc., announced the availability of a wireless integrated distribution feeder automation (DFA) solution using RuggedCom's RuggedMAX™ broadband wireless solutions and Siemens' SIPROTEC® Compact line/feeder protection
- announced certification of the RuggedSwitch® RSG2100 and RS900G products for Rail Applications with EN Standard 50121-4 that ensures electromagnetic compatibility amongst telecommunications equipment;
- introduced the RuggedMAX WiN7018, a high power WiMAX base station designed to meet the new regulations in Canada for 1.8 GHz radio frequency spectrum for electric power applications;
- together with Itron Inc., a leading technology provider to the global energy and water industries, announced a partnership that will expand the scope of both companies' Smart Grid offerings. RuggedMAX™, an IEEE 802.16-2005 (WiMAX 802.16e) certified solution, will be integrated into Itron's OpenWay® smart metering solution as an additional WiMAX backhaul communications option for utilities;
- announced that the ARC Advisory Group, a leading market research firm for industrial automation, reported that RuggedCom had over 52% market share for Industrial Ethernet infrastructure in the

electric power market for 2009. In addition, the ARC report indicated that RuggedCom has grown its market share to the #2 position in the overall Industrial Ethernet infrastructure market.

- received purchase orders totalling nearly \$2 million from major US rail companies;
- was awarded a contract totaling approximately \$1 million from a leading global communications solutions provider to the oil and gas market, to supply RuggedMAX™ equipment for connectivity to and around offshore oil rigs;
- extended its partnership with IBM to include participation in IBM's Intelligent Utility Network services initiative for the Smart Grid;
- was named for the fifth year in a row to the prestigious Deloitte Technology Fast 50™, a ranking of the 50 fastest growing technology companies in Canada, based on the percentage of revenue growth over five years. RuggedCom's increase in revenue of 969% from 2005 to 2009 resulted in a 25th ranking overall.
- announced it had agreed to purchase the substation automation business of Bow Networks Inc. Bow Networks is a leader in the development of substation automation and security software solutions which are used to securely retrieve, present and analyze information from intelligent electronic devices, allowing utilities to make decisions that facilitate the restoration of power and increase utilization of critical assets and infrastructure. When integrated with RuggedCom's portfolio of utility grade communications platforms, the combined offering provides a comprehensive Information Backbone for use in Smart Grid applications;
- was ranked number 110 on Technology Fast 500™, Deloitte's ranking of 500 of the fastest growing technology, media, telecommunications, life sciences and clean technology companies in North America. Rankings are based on percentage of fiscal year revenue growth during the period from 2005 to 2009. RuggedCom's revenues grew 969% during this period;
- entered into an agreement with Alcatel-Lucent to deliver Stratos IP communications solutions for an offshore oil and gas application in the Gulf of Mexico. RuggedCom's RuggedMAX™ 802.16e WiMAX products will be a key component in the \$5.2 million project announced during the quarter by Alcatel-Lucent and Stratos.
- was awarded a contract from National Grid, one of the largest investor-owned energy companies in the world, to supply project management, equipment and services to implement a Remote Access Monitoring and Monitoring solution for more than 400 electric and gas substations in the United Kingdom. The solution, to be implemented over the next three years, has a total project value of approximately \$5 million and is based on the Company's RuggedSwitch® and RuggedRouter® families of utility grade IEC 61850-3 compliant products;
- completed successful compatibility verification of the Company's WiMAX wide area network offering with the Gridstream advanced metering solution provided by Landis + Gyr, a leading provider of integrated energy management solutions tailored to energy company needs;
- received a purchase order totaling over \$2.1 million for products used to build the mission-critical communications infrastructure in wind power generation facilities in China.

## SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three month periods and fiscal years ended March 31, 2011 and March 31, 2010, respectively. The selected financial information set out below as at, and for the fiscal years ended, March 31, 2011 and 2010 has been derived from the audited consolidated financial statements and accompanying notes for the fiscal years ended March 31, 2011 and 2010. The financial information for the three month periods ended March 31, 2011 and 2010 has been prepared by management in accordance with Canadian GAAP in a manner consistent with its audited annual financial statements and has not been subject to a review engagement by the Company's auditors. Investors should read the following information in conjunction with those statements and related notes.

<b>Selected Consolidated Financial Information</b>	<b>Three months ended March 31 (unaudited)</b>		<b>Fiscal year ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
(In thousands, except share amounts, data expressed as percentages and per share data)					
<b>Revenue</b> .....	\$ 26,690	\$ 19,382	\$ 93,967	\$ 72,739	\$ 60,373
Cost of goods sold.....	<u>11,112</u>	<u>8,023</u>	<u>38,171</u>	<u>30,058</u>	<u>22,268</u>
Gross margin .....	15,578	11,359	55,796	42,681	38,105
Gross margin % .....	58.4%	58.6%	59.4%	58.7%	63.1%
<b>Operating expenses:</b>					
Research and development .....	3,606	2,901	12,599	9,242	4,967
Sales and marketing.....	5,833	3,792	18,224	14,197	10,765
General and administrative .....	2,859	2,358	10,216	8,721	5,561
Investment tax credits.....	(1,021)	(572)	(2,171)	(1,302)	(1,048)
Foreign currency loss (gain) .....	499	487	1,176	2,351	(742)
Amortization.....	<u>1,453</u>	<u>1,165</u>	<u>5,363</u>	<u>3,068</u>	<u>1,166</u>
Total operating expenses .....	<u>13,229</u>	<u>10,131</u>	<u>45,407</u>	<u>36,277</u>	<u>20,669</u>
Net interest income (expense) .....	<u>74</u>	<u>(11)</u>	<u>247</u>	<u>115</u>	<u>1,273</u>
Earnings before income taxes.....	2,423	1,217	10,636	6,519	18,709
Provision for income taxes – current.....	754	747	3,811	2,745	5,827
Provision (recovery) for income taxes – future .....	<u>112</u>	<u>(632)</u>	<u>638</u>	<u>(411)</u>	<u>554</u>
Net earnings for the period .....	<u>1,557</u>	<u>1,102</u>	<u>6,187</u>	<u>4,185</u>	<u>12,328</u>
<b>Net Earnings Per Common Share:</b>					
Basic.....	\$ 0.13	\$ 0.09	\$ 0.51	\$ 0.35	\$ 1.05
Diluted.....	\$ 0.12	\$ 0.09	\$ 0.50	\$ 0.33	\$ 1.00
<b>Weighted Average Number of Common Shares Outstanding:</b>					
Basic.....	12,199,423	12,139,771	12,167,740	12,062,547	11,771,439
Diluted.....	12,581,101	12,553,459	12,493,120	12,577,790	12,326,514
<b>Other data:</b>					
<b>EBITDA</b> <sup>(1)</sup> .....	\$ 3,802	\$ 2,393	\$ 15,752	\$ 9,472	\$ 18,602
<b>EBITDA Margin %</b> <sup>(1)</sup> .....	14.2%	12.3%	16.8%	13.0%	30.8%

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".

<b>Net Earnings to EBITDA Reconciliation</b>	<b>Three months ended March 31 (unaudited)</b>		<b>Fiscal year ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In thousands)		(In thousands)		
Net earnings .....	\$ 1,557	\$ 1,102	\$ 6,187	\$ 4,185	\$ 12,328
Interest .....	(74)	11	(247)	(115)	(1,273)
Taxes .....	866	115	4,449	2,334	6,381
Amortization .....	<u>1,453</u>	<u>1,165</u>	<u>5,363</u>	<u>3,068</u>	<u>1,166</u>
<b>EBIDTA</b> <sup>(1)</sup> .....	\$ <u>3,802</u>	\$ <u>2,393</u>	\$ <u>15,752</u>	\$ <u>9,472</u>	\$ <u>18,602</u>

Notes:

(1) See "Non-GAAP measures"

	<b>As at March 31, 2011</b>	<b>As at March 31, 2010</b>	<b>As at March 31, 2009</b>
<b>Consolidated Balance Sheet Data:</b>	(In thousands)		
Cash and cash equivalents	\$ 38,106	\$ 33,140	\$ 45,099
Working capital (1)	63,606	51,897	52,023
Total assets	100,112	86,253	64,230
Total liabilities	11,829	10,095	9,141
Total shareholders' equity	88,283	76,158	55,089

Notes:

(1) Working capital is calculated as current assets less current liabilities

## Financial Highlights

Achieved revenues of \$26.7 million in the fourth quarter, representing an increase of 38% over the same quarter a year ago. For the full F11 year, recorded revenues of \$94.0 million, up 29% over the prior fiscal year.

Booked orders of \$29.9 million in the fourth quarter, an increase of 64% over the same quarter a year ago. For the full F11 year, booked orders of \$98.2 million, up 29% year over year.

Gross margin of \$15.6 million in the fourth quarter, up 37% from the same quarter a year ago. For the full F11 year, realized gross margins of \$55.8 million, up 31% over the prior fiscal year.

Achieved 21<sup>st</sup> consecutive quarter of profitability with net income of \$1.6 million compared to \$1.1 million for the same quarter a year ago, an increase of 41%. For the full F11 year, net income was \$6.2 million, up 48% from the prior fiscal year.

## **OVERALL PERFORMANCE**

### **Revenue and Expenses**

#### ***Revenue***

The Company's revenue is derived principally from the sale of IP-based rugged communications networking solutions including Ethernet switches, network routers, wireless devices, serial servers and media converters. The Company currently generates an insignificant percentage of revenue from application software and professional services.

The Company markets and sells rugged communications networking solutions worldwide through offices in North America, Europe and Asia. The Company's sales channel structure is different in each of the Company's target markets, but the majority of sales are derived from its sales team.

The Company's sales team is comprised of regional sales managers who are employees of RuggedCom and are supported by its field application engineers. The Company's regional sales managers also utilize a network of manufacturers' representatives and distributors, as well as channel partners, such as original equipment manufacturers, system integrators and consultants, each utilized to varying degrees based on the specific nature of target markets.

The Company's revenues have increased from both sales to new customers as well as sales of additional products and services to its existing customer base and it has broadened its geographic sales base. The sales cycle is typically characterized by extensive evaluation periods and in some cases bench trials and pilot deployments. Most of the Company's orders are made pursuant to purchase orders and the Company does not typically have long term supply contracts with customers.

The Company monitors revenue performance in four main geographical areas: North America; Europe, the Middle East and Africa ("EMEA"); Asia-Pacific (including Australia) ("APAC"); Latin America. The Company also monitors revenue performance in four main market categories: Electric Power, Transportation, Industrial and Military.

#### ***Cost of Goods Sold***

Cost of goods sold consists primarily of costs of manufacturing and assembly of products. A significant portion of these costs is represented by components and compensation costs for the manufacture and assembly of products. Cost of goods sold also includes related overhead, final assembly, quality assurance, inventory management and payments to local third-party subcontract manufacturers that perform outsourced manufacturing and assembly for the Company. Cost of goods sold also includes the cost of providing services to customers, primarily the cost of service-related personnel used for training and professional services.

#### ***Operating Expenses***

The Company's operating expenses consist of (i) research and development expenditures and related investment tax credits, (ii) sales and marketing expenses, (iii) general and administrative expenses, (iv) foreign exchange gains and losses and (v) amortization.

Research and development expenses consist primarily of personnel and related costs associated with the Company's research and development efforts, including the development of new products,

enhancements to existing products, quality assurance activities, software development, tools and equipment. The Company is entitled to certain scientific research and experimental development (“SR&ED”) Canadian tax credits for qualifying research and development activities performed in Canada. Expenses are shown net of applicable SR&ED tax credits.

Sales and marketing expenses consist primarily of costs relating to personnel and to the Company's sales and marketing activities, including the salaries and commissions paid to the Company's sales force, commissions paid to independent industry sales representatives, advertising, trade shows and other promotional expenses.

General and administrative expenses are comprised primarily of costs relating to personnel and related costs associated with the administration of the Company's business, including, information technology, finance and customer support functions, legal and other professional fees, rental of office and manufacturing space, insurance and other corporate and overhead expenses.

Amortization of property and equipment and intangible assets is recorded over the estimated useful lives of the assets on a straight-line basis. Intangible assets consist primarily of intellectual property including issued patents, and patents for which applications have been filed, trademarks, domain names, technological assets, customer lists and certain agreements.

**(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)**

## INTERIM PERIOD OPERATING RESULTS

### CURRENT PERIOD AND ANNUAL OPERATING RESULTS

#### *Revenue*

The Company's reporting currency is in US dollars. For the three month period ending March 31<sup>st</sup>, 2011 ("Q4-F11") approximately 90% of the Company's sales revenues were in US dollars.

#### **Highlights – Annual (F11)**

- Achieved revenues of \$94.0 million
  - 9<sup>th</sup> consecutive record year
  - An increase of 29.2% from \$72.7 million in the prior fiscal year
- Received purchase orders totaling \$98.2 million
  - 9<sup>th</sup> consecutive record year
  - An increase of 29.3% from \$75.9 million in the prior fiscal year
- Achieved new annual Company records for revenues in the following sectors:
  - Electric Power – \$64.4 million; up 39.3% from \$46.2 million in the prior fiscal year
  - Transportation – \$17.1 million; up 48.8% from \$11.5 million in the prior fiscal year
- Added 433 new customers
  - An increase of 4.3% from 415 new customers added in the prior fiscal year

#### **Highlights – Q4-F11**

- Achieved revenues of \$26.7 million
  - 3<sup>rd</sup> consecutive record quarter
  - An increase of 37.7% from \$19.4 million in the same period the prior fiscal year
- Achieved purchase orders totaling \$29.9 million
  - 4<sup>th</sup> consecutive record quarter
  - An increase of 63.8% from \$18.3 million in the same period the prior fiscal year
- Achieved new Company record for revenues in the following market:
  - Electric Power - \$18.8 million; up 65.3% year-over-year

- Added 112 new customers
  - An increase of 23.1% from 91 new customers added in the same period the prior fiscal year

Sales for Q4-F11 were \$26.7 million compared to \$19.4 million for the same period in the prior fiscal year, representing an increase of 37.7%. Sales for the full fiscal year F11 were \$94.0 million compared to \$72.7 million for the last fiscal year representing an increase of 29.2%.

Customer purchase orders for Q4-F11 totaled \$29.9 million compared to \$18.3 million for the same period last year, representing an increase of 63.8%. Purchase orders for the full fiscal year F11 totaled \$98.2 million compared to \$75.9 million for the same period last year, representing an increase of 29.3%.

In general, sales for Q4-F11 and for the full fiscal F11 were driven by the continued deployment of IP-based rugged communications networking solutions across all of the Company's target markets and regions to both existing and new customers.

## **Sales by Market**

### **Electric Power**

Sales in the electric power market for Q4-F11 totaled \$18.8 million compared to \$11.4 million for the same period in the prior fiscal year, representing an increase of 65.3%. Sales in the electric power market for Q4-F11 comprised 70.5% of total Company sales for the quarter compared to 58.8% for the same period in the prior fiscal year. In addition, Q4-F11 sales in the electric power market established a 4<sup>th</sup> consecutive record quarter for sales in this market. Sales in the electric power market for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$64.4 million compared to \$46.2 million for the prior fiscal year, representing an increase of 39.3%. Sales in the electric power market for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 68.5% of total Company sales compared to 63.5% for the prior fiscal year. In addition sales in the electric power market for the twelve month period ended March 31<sup>st</sup>, 2011 represented a new annual Company record for sales in this market. Growth in the electric power market continues to be led by the deployment of the Company's rugged communications networking solutions for use in substation automation as part of the transmission and distribution infrastructure across all geographic regions.

### **Transportation**

Sales in the transportation market for Q4-F11 totaled \$4.2 million compared to \$3.3 million for the same period in the prior fiscal year, representing an increase of 27.6%. Sales in the transportation market for Q4-F11 comprised 15.9% of total Company sales for the quarter compared to 17.2% for the same period in the prior fiscal year. Sales in the transportation market for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$17.1 million compared to \$11.5 million for the same period the prior fiscal year, representing an increase of 48.8%. Sales in the transportation market for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 18.2% of total Company sales compared to 15.8% for the prior fiscal year. In addition sales in the transportation market for the twelve month period ended March 31<sup>st</sup>, 2011 represented a new annual record for sales in this market. Growth in the sector was led by sales from the North American region, which has historically been the largest contributor, and represented approximately 68% of the fiscal 2011 sales in the sector. The Company expects that revenues from the transportation market could experience quarterly volatility for fiscal year 2011 depending on project

activity in the USA and the Company's ability to generate sales in other geographic regions. In fiscal 2011 the Company saw sales in the transportation sector from the EMEA and APAC regions increase. In fiscal 2011, EMEA and APAC combined, represented approximately 31% of transportation sector sales compared to approximately 13% in the prior fiscal year.

## Industrial

Sales in the industrial process market for Q4-F11 totaled \$2.0 million compared to \$2.3 million for the same period in the prior fiscal year. Sales in the industrial process market for Q4-F11 comprised 7.5% of total Company sales for the quarter compared to 11.9% for the same period in the prior fiscal year. Sales in the industrial process market for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$7.5 million compared to \$9.0 million for the prior fiscal year, representing a decrease of 16.3%. Sales in the industrial process market for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 8.0% of total Company sales compared to 12.4% over the same period the prior fiscal year. The Company expects that revenues in this sector could experience quarterly volatility depending on global spending on process automation in the Oil and Gas, Mining and Metals, and Chemical sectors as well as the Company's ability to further penetrate these sectors.

## Military

Sales in the military market for Q4-F11 totaled \$1.2 million compared to \$2.2 million for the same period in the prior fiscal year, representing a decrease of 44.7%. Sales in the military market for Q4-F11 comprised 4.6% of total Company sales for the quarter compared to 11.4% for the same period in the prior fiscal year. Sales in the military market for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$4.4 million compared to \$5.5 million for the same period in the prior fiscal year, representing a decrease of 19.7%. Sales in the Military market for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 4.7% of total Company sales compared to 7.5% over the same period the prior fiscal year. The Company's experience indicates that sales by the Company in the military sector have quarterly variability due the nature of sales in this sector, which are characterized by long sales cycles, a relatively small number of large scale projects and a relatively small customer base. Historically the majority of sales in this sector have come from the USA. In fiscal 2011 sales from the USA were impacted by the delay in approval of the US federal budget which impacted military sector spending on new programs.

(Unaudited) MARKET/SECTOR	Three months ended March 31 (as percentage of total)		Three months ended March 31 (\$ thousands)		Change
	2011	2010	2011	2010	%
Electric Power (Utilities) ....	70.5%	58.8%	\$18,829	\$11,392	65.3%
Transportation .....	15.9%	17.2%	\$4,249	\$3,331	27.6%
Industrial .....	7.5%	11.9%	\$2,012	\$2,309	-12.8%
Military .....	4.6%	11.4%	\$1,226	\$2,216	-44.7%
Other .....	1.4%	0.7%	\$374	\$135	177.8%
See Note (1)	100.0%	100.0%	\$26,690	\$19,382	37.7%

(Unaudited) MARKET/SECTOR	Twelve months ended March 31 (as percentage of total)		Twelve months ended March 31 (\$ thousands)		Change
	2011	2010	2011	2010	%
Electric Power (Utilities) ....	68.5%	63.5%	\$64,360	\$46,187	39.3%
Transportation .....	18.2%	15.8%	\$17,057	\$11,460	48.8%
Industrial .....	8.0%	12.4%	\$7,549	\$9,021	-16.3%
Military .....	4.7%	7.5%	\$4,398	\$5,478	-19.7%
Other .....	<u>0.6%</u>	<u>0.8%</u>	<u>\$602</u>	<u>\$593</u>	<u>1.5%</u>
See Note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$93,967</u>	<u>\$72,739</u>	<u>29.2%</u>

Note (1) Totals may not equal column sum due to rounding

## Sales by Region

### North America

North America sales for Q4-F11 totaled \$10.3 million compared to \$10.1 million for the same period in the prior fiscal year, representing an increase of 1.7%. Sales in North America for Q4-F11 comprised 38.5% of total Company sales for the quarter compared to 52.2% for the same period in the prior fiscal year. Q4-F11 North America sales were driven primarily by sales in the electric power, and transportation sectors. In addition, Q4-F11 sales established a 2<sup>nd</sup> consecutive record quarter for sales in this region. North American sales for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$39.1 million compared to \$33.1 million for the prior fiscal year, representing an increase of 18.0%. Sales in North America for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 41.6% of total Company sales compared to 45.5% for the prior fiscal year. Sales in North America for the twelve month period ended March 31<sup>st</sup>, 2011 were driven mainly by sales in the electric power, transportation and military sectors.

### Europe, Middle-East and Africa (EMEA)

EMEA sales for Q4-F11 totaled \$7.7 million compared to \$4.1 million for the same period in the prior fiscal year, representing an increase of 90.2%. Sales in EMEA for Q4-F11 comprised 28.8% of total Company sales for the quarter compared to 20.9% for the same period in the prior fiscal year. Q4-F11 EMEA sales were driven primarily by sales in the electric power sector. In addition, Q4-F11 sales established a 2<sup>nd</sup> consecutive record quarter for sales in this region. EMEA sales for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$25.1 million compared to \$18.1 million for the prior fiscal year, representing an increase of 38.7%. Sales in EMEA for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 26.8% of total Company sales compared to 24.9% for the prior fiscal year. Sales in EMEA for the twelve month period ended March 31<sup>st</sup>, 2011 were driven mainly by sales in the electric power sector.

## Asia-Pacific (APAC)

APAC sales for Q4-F11 totaled \$6.8 million compared to \$3.9 million for the same period in the prior fiscal year, representing an increase of 73.4%. Sales in APAC for Q4-F11 comprised 25.5% of total Company sales for the quarter compared to 20.3% for the same period in the prior fiscal year. Q4-F10 APAC sales were driven primarily by sales in the electric power sector. In addition, Q4-F11 sales established a 3<sup>rd</sup> consecutive record quarter for sales in this region. APAC sales for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$22.6 million compared to \$15.1 million for the prior fiscal year, representing an increase of 49.5%. Sales in APAC for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 24.1% of total Company sales compared to 20.8% for the prior fiscal year. Sales in APAC for the twelve month period ended March 31<sup>st</sup>, 2011 were driven mainly by sales in the electric power sector.

## Latin America

Latin America sales for Q4-F11 totaled \$1.9 million compared to \$1.3 million for the same period in the prior fiscal year, representing an increase of 46.2%. Sales in Latin America for Q4-F11 comprised 7.1% of total Company sales for the quarter compared to 6.7% for the same period in the prior fiscal year. Q4-F11 Latin America sales were driven primarily by sales in the electric power sector. Latin America sales for the twelve month period ended March 31<sup>st</sup>, 2011 totaled \$7.1 million compared to \$6.4 million for the prior fiscal year, representing an increase of 11.7%. Sales in Latin America for the twelve month period ended March 31<sup>st</sup>, 2011 comprised 7.6% of total Company sales compared to 8.8% for the prior fiscal year. Sales in Latin America for the twelve month period ended March 31<sup>st</sup>, 2011 were driven mainly by sales in the electric power sector.

(Unaudited) <b>REGION</b>	Three months ended March 31 (as percentage of total)		Three months ended March 31 (\$ thousands)		Change
	2011	2010	2011	2010	%
North America.....	38.5%	52.2%	\$10,284	\$10,110	1.7%
Latin America .....	7.1%	6.7%	\$1,890	\$1,293	46.2%
Asia Pacific .....	25.5%	20.3%	\$6,809	\$3,927	73.4%
Europe, Middle East & Africa...	<u>28.8%</u>	<u>20.9%</u>	<u>\$7,707</u>	<u>\$4,052</u>	<u>90.2%</u>
See Note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$26,690</u>	<u>\$19,382</u>	<u>37.7%</u>

(Unaudited) <b>REGION</b>	Twelve months ended March 31 (as percentage of total)		Twelve months ended March 31 (\$ thousands)		Change
	2011	2010	2011	2010	%
North America.....	41.6%	45.5%	\$39,071	\$33,099	18.0%
Latin America .....	7.6%	8.8%	\$7,142	\$6,392	11.7%
Asia Pacific .....	24.1%	20.8%	\$22,616	\$15,127	49.5%
Europe, Middle East & Africa...	<u>26.8%</u>	<u>24.9%</u>	<u>\$25,139</u>	<u>\$18,121</u>	<u>38.7%</u>
See Note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$93,967</u>	<u>\$72,739</u>	<u>29.2%</u>

Note (1) Totals may not equal column sum due to rounding

## Sales by Customer

The total number of customers who placed orders in Q4-F11 was 535 as compared to 464 for the same period in the prior fiscal year, an increase of 15.3%. In Q4-F11 the Company also added 112 new customers as compared to 91 for the same period in the prior fiscal year, representing an increase of 23.1%. For the twelve month period ended March 31<sup>st</sup>, 2011 the company added 433 new customers as compared to 415 for the same period in the prior fiscal year, representing an increase of 4.3%. For the twelve month period ended March 31<sup>st</sup>, 2011 the electric power sector contributed the largest number of new customers (223 out of 433) accounting for 51.5%.

In Q4-F11 the Company's top ten customers accounted for 43.2% of sales revenues. For the twelve month period ended March 31<sup>st</sup>, 2011 the Company's top ten customers accounted for 38.8% of sales revenues. The following table outlines the revenue generated from the Company's customers which represents more than 10% of the Company's sales revenues for a given period.

Customers comprising greater than 10% of sales revenues for a given period				
	% of total revenues for Three months ended March 31, 2011	% of total revenues for Three months ended March 31, 2010	% of total revenues for Twelve months ended March 31, 2011	% of total revenues for Twelve months ended March 31, 2010
Customer A	13.4%	9.5%	10.7%	9.2%
<b>Total</b>	<b>13.4%</b>	<b>9.5%</b>	<b>10.7%</b>	<b>9.2%</b>

## Gross Margin

Gross margin for Q4-F11 increased 37% to \$15.6 million, compared to \$11.4 million in the same period in the last fiscal year, and as a percentage of revenue, decreased slightly to 58.4% from 58.6% for the same period in the last fiscal year.

For the full fiscal year ending March 31<sup>st</sup>, 2011 gross margin increased 30.7% to \$55.8 million, compared to \$42.7 million in the same period in the last fiscal year, and as a percentage of revenue, increased to 59.4% from 58.7% for the same period in the last fiscal year.

The gross margin percentages of 58.4% for Q4-F11 and 59.4% for the full fiscal year ending March 31, 2011 exceed the Company's 5-year historical average of 58.0%.

## Operating Expenses

The following table presents additional comparative data for the Company's operating expenses:

### Expenses as a Percentage of Revenue

	Three months ended March 31 (unaudited)		Fiscal year ended March 31	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Revenue</b> .....	<u>26,690</u>	<u>19,382</u>	<u>93,967</u>	<u>72,739</u>
Research and development, net of investment tax credits...	3,606	2,901	12,599	9,242
<b>% of revenue</b> .....	<b>13.5%</b>	<b>15.0%</b>	<b>13.4%</b>	<b>12.7%</b>
Sales and marketing .....	5,833	3,792	18,224	14,197
<b>% of revenue</b> .....	<b>21.9%</b>	<b>19.6%</b>	<b>19.4%</b>	<b>19.5%</b>
General and administrative.....	2,859	2,358	10,216	8,721
<b>% of revenue</b> .....	<b>10.7%</b>	<b>12.2%</b>	<b>10.9%</b>	<b>12.0%</b>
Investment tax credits .....	(1,021)	(572)	(2,171)	(1,302)
<b>% of revenue</b> .....	<b>-3.8%</b>	<b>-3.0%</b>	<b>-2.3%</b>	<b>-1.8%</b>
Foreign exchange loss .....	499	487	1,176	2,351
<b>% of revenue</b> .....	<b>1.9%</b>	<b>2.5%</b>	<b>1.3%</b>	<b>3.2%</b>
Amortization .....	1,453	1,165	5,363	3,068
<b>% of revenue</b> .....	<b>5.4%</b>	<b>6.0%</b>	<b>5.7%</b>	<b>4.2%</b>
Total operating expenses .....	<u>13,229</u>	<u>10,131</u>	<u>45,407</u>	<u>36,277</u>
<b>% of revenue</b> .....	<b>49.6%</b>	<b>52.3%</b>	<b>48.3%</b>	<b>49.9%</b>

### Research and Development Expenses

Gross research and development expenses for Q4-F11, before accounting for the effect of investment tax credits, increased 24% to \$3.6 million, or 13.5% of revenue, compared to \$2.9 million, or 15.0% of revenue, for the same period in the previous fiscal year. For the full fiscal year 2011, gross research and development expenses increased 36% to \$12.6 million compared to \$9.2 million for the full fiscal period last year, representing 13.4% and 12.7% of total revenues for each period, respectively. The increase in absolute dollar expense for these periods compared to the corresponding periods in the prior year was mainly attributable to increased research and development personnel costs resulting from an increase in the number of employees over the past 12 months from 89 to 109, including an additional 11 employees related to the Bow Networks asset acquisition, completed in Q3-F11. The consolidated results include approximately \$0.9 million and \$4.1 million of WiNetworks research and development expense for the three month period and full fiscal year ending March 31, 2011 respectively.

### ***Sales and Marketing Expenses***

Sales and marketing expenses for Q4-F11 increased 54% to \$5.8 million, compared to \$3.8 million for the same period in the previous fiscal year, representing 21.9% and 19.6% of total revenues for each period, respectively. For the full fiscal year, sales and marketing expenses increased 28% to \$18.2 million compared to \$14.2 million for the full fiscal period last year, representing 19.4% and 19.5% of total revenues for each period, respectively. The increase in dollar amounts for both Q4-F11 and the full fiscal year compared to their corresponding prior periods was partially attributable to an increase in the Company's sales personnel over the past 12 months from 52 to 70 and also to an increase in their total compensation, a portion of which is performance based. The Company expects that selling and marketing expenses will continue to increase in dollar amounts in future periods as amounts paid out to its sales force and to industry sales representatives increase commensurate with the growth in the Company's sales, and as overall marketing activities and efforts continue.

### ***General and Administrative Expenses***

General and administrative expenses for Q4-F11 increased 21% to \$2.9 million, compared to \$2.4 million for the same period in the last fiscal year, representing 10.7% and 12.2% of total revenues for each period, respectively.

For the full fiscal year, general and administrative expenses were \$10.2 million, compared to \$8.7 million for the full fiscal period last year, representing 10.9% and 12.0% of total revenues for each period, respectively. The increase in dollar amounts for Q4-F11 and the full fiscal year compared to the corresponding prior periods last year was primarily due to a 25% increase in headcount from 41 to 51, necessary to support the Company's staffing requirements in finance, administration and customer support as a result the growth of our business.

### ***Investment Tax Credits***

In Q4-F11 the Company recorded \$1.0 million of investment tax credits compared with \$0.6 million in the same period last year. For the full fiscal year the Company recorded \$2.2 million of investment tax credits compared with \$1.3 million in the comparable period a year ago. Investment tax credits include research and development grants received by the Company's WiNetworks subsidiary.

### ***Foreign Exchange Loss/Gain***

In Q4-F11 foreign exchange losses of \$0.5 million were incurred and were primarily due to the strengthening of the Canadian dollar against the US dollar and the negative impact this had on the Company's US dollar denominated working capital (mostly US\$ receivables). This compares to a foreign exchange loss of \$0.5 million for the same period in the prior fiscal year in which the Canadian dollar again strengthened against the US dollar. For the full fiscal year the Company incurred foreign exchange losses of \$1.2 million. This compares to foreign exchange losses of \$2.4 million incurred in the prior full fiscal year.

Prior to December 31, 2009 the Company had never hedged its foreign exchange exposure, believing that losses and gains tend to even out in the long run. As well, the Company has a partial natural hedge in that most of its revenues and cost of sales expenses are US dollar denominated. However, in an effort to partially counteract volatility experienced in the foreign exchange markets, in early January 2011 the Company entered into a forward contract with a major Canadian bank to sell US dollars during Q4-F11. There were no outstanding obligations relating to the forward contract as at

March 31, 2011. Similar foreign exchange contracts were entered into in January, April, July and October of 2010.

### ***Amortization***

Amortization expense for Q4-F11 increased 25% to \$1.5 million, compared to \$1.2 million for the same period in the prior fiscal year, representing 5.4% and 6.0% of total revenues for each period, respectively. The increased amortization was due to an increase in leasehold improvements and other fixed asset purchases made in the ordinary course of business. For the full fiscal year, amortization expense increased 75% to \$5.4 million compared to \$3.1 million for the prior full fiscal year. This increase was largely due to leasehold improvements made at the Company's head office and manufacturing facility as well as amortization of technological and other intangible assets acquired in both the WiNetworks and Bow Networks acquisitions.

### ***Interest and Other Income***

The Company earned \$74,000 of interest income in Q4-F11 compared to \$11,000 of interest expense for the same period last fiscal year. Interest income was earned on the Company's cash and cash equivalents, less a nominal amount of interest expense related principally to capital leases. The net interest expense incurred in the same quarter a year ago was due to a large amount of interest expense associated with the Company's WiNetwork's subsidiary. For the full fiscal period, interest income was \$247,000 compared to \$115,000 in the comparable period in the prior year.

### ***Income Tax Expense***

The Company recorded a tax provision for Q4-F11 of \$0.9 million which equates to an effective tax rate of 35.7%. This rate is higher than the statutory rate of approximately 28% due to the existence of certain permanent differences. The Company's consolidated pre-tax earnings for Q4-F11 includes approximately \$0.2 million of losses attributable to WiNetworks with no offsetting tax benefit. This compares to a \$0.1 million income tax expense for the same period in the prior year, representing an effective tax rate of 9.4%. The relatively low effective rate from Q4-F10 was due to certain adjustments made in the prior year period as a result of a review of the Company's transfer pricing policy. The prior full fiscal year period included WiNetworks' losses of \$1.0 million with no offsetting tax benefit.

### ***Net Earnings***

Net income before taxes for Q4-F11 was \$2.4 million compared to \$1.2 million for the same period in the last fiscal year, representing 9.1% and 6.3%, respectively, of total revenues for each period. The increase over the comparable period a year ago was due to increased revenues and gross margin, despite a slight decrease in gross margin percentage (58.4% compared to 58.6%), in addition to a decrease in operating expenses as a percentage of revenue, to 49.6% in Q4-F11 from 52.3% for Q4-F10.

For the full fiscal year, net earnings before taxes were \$10.6 million compared to \$6.5 million for the prior full fiscal year, representing 11.3% and 9.0%, respectively, of total revenue for each period.

WiNetworks contributed approximately \$2.3 million of revenues and resulted in the inclusion of a \$0.2 million loss before and after taxes in the Company's consolidated financial results. Future revenues from wireless products are expected to grow faster than related operating expenses as the WiNetworks' research and development team completes the initial development of wireless products for RuggedCom's core markets.

Net earnings after taxes for Q4-F11 were \$1.6 compared to \$1.1 million for Q4-F10, representing 5.8% and 5.7%, respectively, of total revenues for each period. This represents an increase of 41% over the corresponding period last year. For the full fiscal year, net earnings after taxes were \$6.2 million compared to \$4.2 million for the same period in the last fiscal year, representing 6.6% and 5.8%, respectively, of total revenues for each period. This represents an increase of 48% over the corresponding prior fiscal year.

## **Outlook**

In the long term, we believe we are well positioned to take advantage of the planned global infrastructure spending, specifically in the Electric Power and Transportation sectors.

The growth in Smart Grid momentum continues as demand for substation communication networks remains strong. Recently announced results of a Newton-Evans Global CAPEX/OPEX Tracking Study reveal that electric power utilities have increased 2011 CAPEX and O&M budgets for transmission and distribution infrastructure development. In addition, the focus in Smart Grid could be shifting from Smart Metering to Distribution Automation, which could have the benefit of a shorter implementation cycle with little or no involvement of consumers. The large opportunities in the Smart Grid market could attract more competitors, which could result in increased competitive pricing pressure, particularly from local competitors in Asia and EMEA.

Strong order growth in the Transportation sector is being driven by rail applications for Positive Train Control in the USA which has become a regulatory requirement for implementation by railway companies by December 2015. In addition, there is the potential for large opportunities in rail globally as countries such as India and China plan to modernize or build new rail infrastructure.

The sovereign debt crisis affecting certain European Union countries could impact government funded infrastructure projects in the Electric Power and Transportation sectors.

Ramping up sales of our WiMAX products and new product platforms in our key target markets could take longer than expected which could impact near term revenues and earnings growth. However, active opportunities for our RuggedMAX™ WiMAX technology are increasing across all of our markets with our first major order coming from the Oil and Gas sector in the Industrial market. We are also seeing multiple opportunities in the Military sector, including initial orders for our new product platforms. As our WiMAX products have now been integrated into our product line, RuggedCom does not plan to split it out as a separate reporting segment going forward.

On October 1, 2010 the Company agreed to purchase the substation automation business of Bow Networks Inc., a leader in the development of substation automation and security software solutions. The purchase price was \$2.2 million (\$2.2 million Canadian dollars) for selected assets, including intellectual property. The purchase transaction closed October 29, 2010. The transaction is expected to be accretive within the next several quarters.

Our objective remains to run the business for long term growth and profitability. Research and development will continue to be a key focus as the Company continues to invest in new product and service development and in current product and service enhancements. Additional resources will continue to be committed to sales and marketing as the Company further develops its global sales channels and continues to promote the RuggedCom brand in its key target markets. The Company will continue to evaluate potential acquisitions that offer complimentary products and services that can leverage our existing customer base.

## LIQUIDITY AND CAPITAL

	As at March 31, 2011	As at March 31, 2010
(In thousands, except Balance Sheet ratios)		
<b>Key Balance Sheet Amounts and Ratios:</b>		
Cash and cash equivalents	\$ 38,106	\$ 33,140
Working capital	63,606	51,897
Long term assets	26,128	25,624
Long term liabilities	1,451	1,363
Working capital ratio <sup>(1)</sup>	7.1	6.9
Days sales outstanding in accounts receivable <sup>(2)</sup>	53 days	43 days
Inventory turnover <sup>(3)</sup>	2.8 times	3.6 times

---

### Notes:

- (1) Current assets divided by current liabilities.
- (2) Days sales in accounts receivable represents the number of days' worth of sales uncollected as at the date indicated. It is derived by calculating the number of days required to accumulate total cumulative daily sales equal to the current trade receivable balance.
- (3) Inventory turnover is defined as the total cost of goods sold for the last 12 months' period divided by the average inventory balance over that same 12 months.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, bank balances and short-term highly liquid investments that are readily convertible into known amounts of cash within three months or less and are subject to an insignificant risk of change in value.

Investments in cash equivalents and marketable securities are governed by the Company's Cash Management & Investment Policy as approved by the Board of Directors. Excess funds are invested in accordance with sound investment management principles. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance.

As at March 31, 2011, the Company had \$38.1 million of cash and cash equivalents compared to \$33.1 million as at March 31, 2010. The increase is mainly due to the strengthening of the Canadian dollar as most of the currency was held in Canadian dollars.

### *Working Capital*

Working capital is defined as current assets less current liabilities. The Company's working capital balance increased to \$63.6 million at March 31, 2011 compared to \$51.9 million at the end of fiscal 2010. The Company's working capital ratio (current assets divided by current liabilities) increased slightly to 7.1:1 compared to a working capital ratio of 6.9:1 as at March 31, 2010 although the mix of current assets and current liabilities changed.

The Company's accounts receivable balance increased \$4.8 million during fiscal 2011 to \$18.3 million from \$13.5 million at the end of fiscal 2010 due principally to the growth in the Company's business. Days Sales Outstanding in accounts receivable ("DSO") increased to 53 days at March 31, 2011

from 43 days at the end of fiscal 2010. The Company's DSO could trend upward to the extent that the Company increases its revenue base in markets outside of North America, as in the Company's experience, international receivables tend to take longer to collect. The Company's allowance for doubtful accounts increased from \$44,000 at the end of fiscal 2010 to \$81,000 as at March 31, 2011. (See "Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.")

Inventory balances increased by \$4.4 million to \$14.9 million at the end of fiscal 2011 from \$10.5 million at the end of fiscal 2010. Inventory levels increased in anticipation of receiving future orders for both wired and wireless products, in addition to advance purchase of certain components to achieve unit cost reductions. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, decreased from 3.6 times at the end of fiscal 2010 to 2.8 times at the end of fiscal 2011. The Company would normally expect inventory turnover to increase over time as the Company continues to achieve cost productivity gains as a result of the growth in its business. However, the Company gives priority to meeting customers' request dates for delivery, which may require the stocking of additional inventory in order to meet short delivery schedules. This can occasionally impact inventory turnover negatively. In addition, there will likely be relatively low inventory turns as a result of the WiNetworks acquisition, due to relatively high existing WiNetworks inventory levels coupled with slower revenues.

Accounts payable and accrued liabilities increased \$0.5 million to \$8.1 million at the end of fiscal 2011 from \$7.6 million at the end of fiscal 2010.

#### ***Cash Provided by (used in) Operating Activities***

The Company generated \$1.4 million cash in operating activities in Q4-F11 as compared to generating \$2.4 million in the same period last fiscal year. For Q4-F11, \$1.6 million was provided through operating performance. Approximately \$2.2 million cash was provided by non-cash items, and \$2.4 million cash used by the net change in current non-cash working capital. In the same period in the last fiscal year, \$2.4 million cash was generated by operating activities. Approximately \$1.1 million was provided through operating performance. The balance related to \$0.8 million provided by non-cash items, in addition to \$0.5 million cash generated by the net change in current non-cash working capital.

For the full fiscal year 2011, the Company generated \$8.2 million cash from operating activities as compared to using \$0.9 million for fiscal year 2010. Approximately \$6.2 million was provided through operating performance. The balance related to \$7.7 million cash provided by non-cash items, offset by \$5.7 million cash used through the net change in current non-cash working capital. In the prior fiscal year, \$0.9 million cash was used from operating activities. Approximately \$4.2 million was provided through operating performance. The balance related to \$3.9 million provided by non-cash items, offset by \$9.0 million cash used through the net change in current non-cash working capital.

#### ***Investing Activities***

Investing activities for Q4-F11 mostly included \$0.5 million in expenditures related to the Company's continued investment in hardware, software and tooling as well as office and information technology infrastructure. This compares to \$1.7 million for the same period last year which included additions to leasehold improvements. The full fiscal year 2011 included a \$2.2 million expenditure to purchase the business of Bow Networks Inc. In the prior fiscal year there were investing activities of \$8.1 million for the purchase of WiNetworks Ltd. In full fiscal year 2011 there were investing activities of approximately \$2.0 million for office furniture, manufacturing equipment and other fixed assets such as evaluation units and tooling. This compares to \$8.7 million for the prior fiscal year, including 6.4 million for the purchase of leasehold improvements for our manufacturing facility. Approximately \$1.2 million

was used for the purchase of software and other intangible assets in the twelve months ending March 31, 2011, which compares to \$1.4 million in the prior year.

The Company continues to invest in hardware, software and tooling as well as office and information technology infrastructure. See “Capital Resources.”

### ***Financing Activities***

During Q4-F11 the Company issued 53,178 common shares upon exercise of employee stock options for net proceeds of approximately \$160,000. Also during Q4-F11 the Company repaid capital lease obligations of approximately \$27,000. There were no other financing activities during the quarter.

During fiscal year 2011 the Company issued 97,037 common shares for net proceeds of \$0.4 million upon exercise of employee stock options. The Company repaid capital lease obligations of approximately \$105,000 during fiscal 2011.

During fiscal year 2010 the Company acquired WiNetworks Ltd. The purchase transaction involved the assumption and repayment of a \$4,875,000 loan to WiNetworks Ltd. from a venture debt lender. Also during 2010 the Company issued 250,000 common shares for net proceeds of \$1.5 million pursuant to the exercise of a share purchase warrant held by Korona Group Ltd. In addition, for the full fiscal year 2010, the Company issued 81,850 common shares upon exercise of employee stock options for net proceeds of approximately \$375,000. The Company repaid capital lease obligations of approximately \$194,000 during fiscal 2010.

The Company also has a credit facility from a chartered financial institution as well as outstanding capital leases under which periodic payments are made. See “Contractual Obligations” and “Capital Resources.”

### ***Outstanding Share Capital***

The Company's authorized share capital is comprised of an unlimited number of common shares of which there are 12,283,665 outstanding as of the date of this MD&A.

### ***Financial Instruments***

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

The Company is subject to financial risk related to earnings and expenses that arises from fluctuations in foreign exchange rates. From time to time the Company enters into forward foreign exchange contracts to mitigate the risk of fluctuations in foreign currencies.

### ***Contractual Obligations***

The majority of the Company's contractual obligations consists of current and long-term capital and operating lease obligations. The Company also accrues warranty costs regarding the five year warranty associated with the sale of its products. As at March 31, 2011 the Company had long-term liabilities of \$1.7 million. This compares to long-term liabilities of \$1.4 million as at March 31, 2010.

While the aggregate amount of these liabilities has changed by only \$0.3 million over the year the specific liabilities have changed.

### **Capital Resources**

Future capital expenditures will continue to be funded through a combination of internally generated cash flows. Capital expenditures will continue to include a mix of computer hardware, software, test equipment, tooling, leasehold improvements and office furniture as the Company continues to invest in its office and IT infrastructure.

The Company also has a credit facility from a chartered financial institution comprising a \$1.03 million (Cdn \$1.0 million) revolving demand facility that is secured by certain of our assets. The facility is available for working capital requirements and general corporate purposes. As at March 31, 2011 there were no borrowings outstanding under the facility. During fiscal 2009, the Company issued performance guarantees in favour of a customer for a total of approximately \$139,000 and a portion of the revolving demand facility will be allocated for these guarantees. The guarantees expire in 2013 and 2014.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements other than those disclosed under "Contractual Obligations" and "Financial Instruments".

### **Transactions with Related Parties**

The Company did not enter into any transactions with related parties during the fiscal years 2011 or 2010.

### **Disclosure Controls and Procedures**

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as at March 31, 2011 and have determined that such disclosure controls and procedures are effective.

### **Internal Controls Over Financial Reporting**

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the fiscal year ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's internal controls over financial reporting as at March 31, 2011 and have determined that such internal controls over financial reporting are effective. The controls, policies and procedures of WiNetworks Ltd and the substation automation business of Bow Networks purchased in the quarter are within the scope of the Company's disclosure controls and procedures and the design of internal controls over financial reporting.

## Selected Consolidated Quarterly Information

(In thousands, except share amounts, data expressed as percentages and per share data)

(Unaudited)	Fiscal 2011				Fiscal 2010			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
<b>Revenue</b> .....	\$ 26,690	\$25,595	\$ 21,692	\$ 19,990	\$ 19,382	\$ 20,600	\$ 16,740	\$ 16,017
Cost of goods sold .....	<u>11,112</u>	<u>10,525</u>	<u>8,470</u>	<u>8,064</u>	<u>8,023</u>	<u>8,248</u>	<u>6,847</u>	<u>6,940</u>
Gross margin .....	15,578	15,070	13,222	11,926	11,359	12,352	9,893	9,077
Gross margin % .....	58.3%	58.9%	61.0%	59.7%	58.6%	60.0%	59.1%	56.7%
<b>Operating expenses:</b>								
Research and development...	3,606	3,210	2,865	2,918	2,901	2,536	1,780	2,025
Sales and marketing .....	5,833	4,457	3,945	3,989	3,792	3,942	3,485	2,978
General and administrative ..	2,859	2,531	2,425	2,401	2,358	2,602	1,808	1,953
Investment tax credits	(1,021)	(569)	(82)	(499)	(572)	(344)	(199)	(187)
Foreign exchange loss (gain)	499	669	541	(533)	487	335	998	531
Amortization .....	<u>1,453</u>	<u>1,357</u>	<u>1,266</u>	<u>1,287</u>	<u>1,165</u>	<u>1,002</u>	<u>508</u>	<u>393</u>
Total operating expenses.....	<u>13,229</u>	<u>11,655</u>	<u>10,960</u>	<u>9,563</u>	<u>10,131</u>	<u>10,073</u>	<u>8,380</u>	<u>7,693</u>
Net interest income (expense)	<u>74</u>	<u>64</u>	<u>78</u>	<u>31</u>	<u>(11)</u>	<u>25</u>	<u>38</u>	<u>63</u>
Earnings before income taxes	2,423	3,479	2,340	2,394	1,217	2,304	1,551	1,447
Provision for income taxes – current .....	754	1,396	676	985	747	1,001	492	505
Provision (recovery) for income taxes - future.....	<u>112</u>	<u>22</u>	<u>300</u>	<u>204</u>	<u>(632)</u>	<u>110</u>	<u>54</u>	<u>57</u>
Net earnings .....	<u>\$1,557</u>	<u>\$2,061</u>	<u>\$1,364</u>	<u>\$1,205</u>	<u>\$1,102</u>	<u>\$1,193</u>	<u>\$1,005</u>	<u>\$885</u>
<b>Net Earnings Per Common Share:</b>								
Basic .....	\$ 0.13	\$0.17	\$ 0.11	\$ 0.10	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.07
Diluted .....	\$ 0.12	\$0.16	\$ 0.11	\$ 0.10	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.07
<b>Weighted Average Number of Common Shares Outstanding</b>								
Basic .....	12,199,423	12,167,323	12,157,529	12,147,149	12,139,771	12,115,981	12,098,002	11,896,306
Diluted .....	12,581,101	12,510,324	12,474,096	12,399,988	12,553,459	12,463,263	12,574,050	12,623,918
<b>Other data:</b>								
EBITDA <sup>(1)</sup> .....	\$ 3,802	\$4,772	\$ 3,528	\$ 3,650	\$ 2,393	\$ 3,281	\$ 2,021	\$ 1,777
EBITDA Margin <sup>(1)</sup> % .....	14.2%	18.6%	16.3%	18.3%	12.3%	15.9%	12.1%	11.1%

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.

## Net Income to EBITDA Reconciliation

(Unaudited)	Fiscal 2011				Fiscal 2010			
	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>
Net earnings	\$1,557	\$2,061	\$1,364	\$1,205	\$1,102	\$1,193	\$1,005	\$885
Net interest income	(74)	(64)	(78)	(31)	11	(25)	(38)	(63)
Taxes	866	1,418	976	1,189	115	1,111	546	562
Amortization	<u>1,453</u>	<u>1,357</u>	<u>1,266</u>	<u>1,287</u>	<u>1,165</u>	<u>1,002</u>	<u>508</u>	<u>393</u>
<b>EBITDA<sup>(1) (2)</sup></b>	<b><u>\$3,802</u></b>	<b><u>\$4,772</u></b>	<b><u>\$3,528</u></b>	<b><u>\$3,650</u></b>	<b><u>\$2,393</u></b>	<b><u>\$3,281</u></b>	<b><u>\$2,021</u></b>	<b><u>\$1,777</u></b>

Notes:

- (1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.
- (2) EBITDA includes investment tax credits.

**(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)**

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### *Use of Estimates*

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant areas requiring management's estimates include the estimates of the allowance for doubtful accounts, allowance for inventory obsolescence, the estimated useful lives of long-lived assets, the value of future income tax assets and liabilities, accruals for warranty and employee-related liabilities, and assumptions relating to the fair value of stock-based compensation, warrants and financial instruments.

### *Revenue Recognition*

Revenue recognition comprises revenue from the sale of goods and the rendering of services. Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding sales tax but net of returns and trade discounts.

The Company often enters into sales transactions involving a range of the Company's products and services (multiple components). For example, for the delivery of hardware, software and related after-sales service. The Company aligns the revenue recognition criteria set out below with each separately identifiable component of the sales transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable components using the relative selling price method, based on vendor-specific objective evidence or 3rd party evidence of selling price. If both are not available estimated selling price is used. These elements may include one or more of the following; product, training and installation. The Company first allocates the arrangement fee, in a multiple element transaction, to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement fee is deferred. Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Revenue is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

#### Sale of goods

Sale of goods comprises the sale of Ethernet based and wireless networking products, which includes embedded software and a license to use said software, post customer support, customer services and product warranties. . Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Revenue from the sale of hardware with no significant service obligation is recognized on shipment.

Shipping and handling costs borne by the Company are recorded in costs of goods sold. Shipping and handling costs charged to customers are recorded as revenue.

#### Sale of services

Services comprise after-sales service and maintenance and consulting. Service revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria, as services are rendered.

#### *Allowance for Doubtful Accounts*

The Company's accounts receivable balance as at March 31, 2011 was \$18.3 million compared to \$13.5 million at March 31, 2010. The allowance for doubtful accounts was \$81,000 as at March 31, 2011 compared to \$44,000 as at March 31, 2010.

The allowance for doubtful accounts represents management's best estimate of potential losses that may be incurred if customers are unable to pay for products and services provided by the Company. Management regularly reviews its accounts receivable and makes an assessment as to the collectability of each receivable. For those amounts deemed to be uncollectible, an allowance is recorded on a by-account basis.

#### *Inventory*

Inventories are recorded at the lower of cost or market value, cost being determined on an average cost basis. The cost of finished goods and work-in-process is comprised of material, labour and manufacturing overhead.

#### *Warranty Costs*

The Company's products have an associated five-year product warranty. A liability for the expected cost of warranty related claims is established when products are sold and the related revenue is recognized. The amount of the warranty liability accrued reflects an estimate of the expected future costs of honouring obligations under the warranty. In estimating the warranty liability, anticipated replacement costs and associated labour to correct the product's failure are considered. Should future product failure rates and/or replacement costs differ from these estimated levels, revisions to the warranty liability may be required.

#### *Government Assistance*

The Company is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development. Tax incentives refundable to the Company are recorded when the qualifying expenditure is incurred and there is a reasonable assurance that the refund will be received.

One of the Company's subsidiaries participates in programs sponsored by foreign governments for the support of research and development activities. Grants are recorded when there is a reasonable assurance that the funds will be received.

### ***Research and Development Costs***

Research and development costs incurred prior to establishing the technological feasibility of products are expensed as incurred. Once the technological feasibility is established, direct costs incurred to develop the product and the net of investment tax credits received are capitalized until the product is available for general release. To date, products developed have had a very short time frame between technological feasibility and commercialization. As a result, the Company has expensed all related costs as incurred.

### ***Stock-based Compensation***

The Company reports and records all stock-based transactions following the guidelines of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." The guidelines use a fair value methodology for recording all stock-based awards to employees issued or altered in the year. The Black-Scholes option pricing model is used to determine the fair value. The fair value of stock options and warrants are determined at the date of grant and charged to operations over the period of vesting.

### ***Foreign Currency Translation***

For foreign currency balances and integrated subsidiaries, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the rate of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated into Canadian dollars, the company's functional currency, at the monthly average exchange rates. Provisions for amortization are translated at the same rate as the related items.

### ***Income Taxes***

The Company accounts for income taxes under the liability method and records future income tax assets and liabilities that reflect the net income tax effects of temporary differences between carrying amounts for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established to the extent that it is more likely than not that they will not be realized.

## **ACCOUNTING CHANGES**

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company has elected to early adopt this abstract prospectively to revenue arrangements with multiple deliverables entered into or materially modified on or after April 1, 2010. Arrangements that were entered into prior to April 1, 2010 will continue to be accounted for under the old accounting standard.

The Company's revenue arrangements may contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly the adoption of the new EIC 175 did not have a material impact on the Company's financial statements. The Company is still required to determine the appropriate accounting under EIC 175, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes.

In the past, for arrangements involving multiple elements, the Company allocated revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. EIC 175 has eliminated the use of the residual value method, and therefore, effective April 1, 2010, the Company has allocated revenue using the relative selling price method of the separate units of accounting. The multiple elements in an arrangement typically might include one or more of the following: hardware, software, installation, and/or other professional service offerings as described in Note 2 of the Company's Annual Financial Statements for 2010. The Company allocates the arrangement fee, in a multiple element transaction, to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling, and if both are not available, estimated selling prices is used. The allocated portion of the arrangement which is undelivered is then deferred.

In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

### **International Financial Reporting Standards (IFRS)**

Beginning on April 1, 2011 the Company will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed as they will not be applied in the future.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. As part of the IFRS conversion project, the Company has established an implementation team. The Company has also engaged an external advisor to assist in the conversion to IFRS.

The conversion project consists of three phases:

Scoping and Diagnostic Phase – This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1

exemptions for first-time IFRS adopters and a high-level assessment of potential consequences for financial reporting, business processes, internal controls and information systems.

**Design and Solutions Development Phase** – This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of conversion to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes, developing IFRS training material and drafting IFRS financial statement content.

**Implementation and Post-Implementation Review Phase** – This phase involves embedding changes to systems, business processes and internal controls; determining the opening IFRS transition balance sheet and tax impacts; conducting parallel accounting under Canadian GAAP and IFRS; and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements. This phase also involves conversion assessment, evaluating improvements for a sustainable operational IFRS model, and testing the internal controls environment.

The Company has completed the diagnostic phase and the project design phase, and is continuing to develop solutions and execute its project implementation strategy. Initial training has been given to key employees, and further investments in training and resources will be made throughout the transition to facilitate a timely and efficient changeover to IFRS.

The transition to IFRS requires the Company to apply IFRS 1 “First Time Adoption of International Financial Reporting Standards”, which sets out the procedures for preparing IFRS-compliant financial statements in the first reporting period after the changeover date. IFRS 1 applies only at the time of changeover, and includes a requirement for retrospective application of each standard, as if that were always in effect. IFRS 1 also provides a series of optional exemptions from retrospective application to ease the transition to the full set of IFRS.

The Company has also determined the areas where changes in accounting policy are expected. The following table discusses qualitative transition effects and quantifies effects of the impacts (if information is available at this time), on Shareholders’ Equity at the transition date and on Net Income for the first six months of 2010. Quantified estimates are still subject to final review and audit by the Company’s auditors and could change.

Optional exemptions:

Exemption	Application of Exemption
Business combinations	The Company has decided not to restate business combinations that occurred prior to April 1, 2010.
Net book value as deemed cost available for property, plant and equipment (IAS 16), investment property (IAS 40) and intangible assets (IAS 38)	The Company has decided to measure its property, plant and equipment and other intangible assets at historic cost for depreciation on transition. The Company has chosen to use the historic cost model for all classes of assets as opposed to the revaluation model going forward after the transition date.
Leases (IFRIC 4, “Determining whether an Arrangement Contains a Lease”)	The Company has made an assessment to determine whether arrangements existing at the date of transition to IFRS contain a lease on the basis of facts and circumstances existing at the transaction date. The Company expects that all operating lease arrangements under

Exemption	Application of Exemption
	Canadian GAAP will continue to be assessed as operating leases on adoption.
Cumulative transaction differences (IAS 21, “The Effects of Changes in Foreign Exchange Rates”)	The Company has chosen to deem cumulative translation differences for all foreign operations to be zero, resulting in a reclassification of cumulative foreign currency translation losses from Accumulated other comprehensive income to retained earnings. Had the Company not taken the exemption, the standard would have been retroactively applied to the date each foreign subsidiary was acquired and formed. On the implementation of IFRS, the Company converted its functional currency to US dollars, resulting in the cumulative translation differences being reset to zero. Therefore no election under this exemption is necessary.

Transition effects:

Key Accounting Area	Differences with Potential Impact to the Company
Presentation of Financial Statements (IAS 1)	<ul style="list-style-type: none"> <li>• Additional disclosures required in the notes to the financial statements, as well as changes to the format of the primary statements.</li> <li>• IFRS requires that provisions be presented on the balance sheet as a distinct line item. Canadian GAAP did not identify provisions as a specific subset of liabilities. At transition date, as a result of further review and analysis, certain provisions were reclassified to comply with IFRS presentation rules. The effect on Shareholders’ equity is nil.</li> </ul>
Property and Equipment (IAS 16)	<ul style="list-style-type: none"> <li>• No items were deemed to be divided up because it had multiple components.</li> <li>• All significant components of furniture and fixtures, office equipment and computer hardware to be amortized according to their useful lives determined in accordance with IFRS</li> </ul>
Impairment of Assets (IAS 36)	<ul style="list-style-type: none"> <li>• Grouping of assets in cash-generating units (CGUs) on the basis of independent cash inflows for impairment testing purposes, using a discounted cash-flow method in a single-step approach.</li> <li>• Goodwill is allocated to and tested in conjunction with its related CGU.</li> <li>• The Company is currently in the process of defining its CGUs.</li> <li>• To date no quantitative effect has been noted.</li> </ul>
Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard)	<ul style="list-style-type: none"> <li>• Recognition and measurement criteria for deferred tax assets and liabilities may differ, as the underlying assets and liabilities vary.</li> <li>• IFRS requires that taxable and deductible temporary differences arising from current assets and current liabilities be classified, as non-current assets and non-current liabilities respectively. Canadian GAAP classified taxable and deductible temporary differences arising from current assets and current liabilities, as the current portion of future income tax assets and liabilities, respectively. The following is the effect on the balance sheet: Current portion of future income tax asset      \$(637)</li> </ul>

Key Accounting Area	Differences with Potential Impact to the Company
	<p>Future income tax asset (long term) \$ 637</p> <p>No effect on Shareholder's equity.</p>
Share-Based Payments (IFRS 2)	<ul style="list-style-type: none"> <li>• Liabilities related to share-based payments made to employees that call for settlement in cash or other assets recognized at fair value at initial grant date and re-measured at fair value at the end of each subsequent reporting period.</li> <li>• When recognizing the vesting of share options the Company will be required to treat each tranche of options as a separate grant which will result in stock based compensation expense being recognized earlier than under previous GAAP.</li> <li>• The Company is still in the process of calculating the effect on transition and the ongoing effect of this change.</li> </ul>
Provisions and Contingencies (IAS 37)	<ul style="list-style-type: none"> <li>• Different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded.</li> </ul>
Reporting and functional currency	<ul style="list-style-type: none"> <li>• The Company has determined that its functional currency under IFRS will be United States dollars while currently it is Canadian dollars under Canadian GAAP.</li> <li>• The effect of this changing functional currency has to be applied from the date at which the United States dollar became the functional currency in accordance with IFRS, which has been determined to be September 17, 2009.</li> <li>• The Company is still in the process of calculating the effect but currently has estimated the effect on transition to be a decrease of approximately \$1,482 on shareholders' equity. The estimated effect on net income for the first six months of fiscal 2011 is a decrease of approximately \$290.</li> </ul>

This is not an exhaustive list of all the significant impacts that could occur during the conversion to IFRS.

International Financial Reporting Standards that are mandatory are all in the process of being finalized. Please note that the IASB's work plan currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS. The IASB is reviewing the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" with the intention of replacing it with a new standard in 2011. The IASB is also expected to review IAS12, standards for Income Taxes and develop proposals for change. The existing IAS12 standard is applicable to the company.

In June 2010, the IASB issued an exposure draft pertaining to revenue recognition as part of the joint revenue project with the United States Financial Accounting Standard Board (FASB). In August 2010, the IASB issued an exposure draft pertaining to leases as part of the joint leasing project with FASB. The leasing exposure draft proposes the elimination of the distinction between operating leases and finance leases and would introduce a new model for lessees and lessors.

The Company continues to evaluate the possible effects of the new standards and exposure drafts, and will monitor the near-term projects that the IASB initiates for income taxes. The ultimate impacts cannot be determined at this time.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development or in light of new information or other external factors that could arise between now and when the changeover is completed. As of the date of this MD&A, the Company is not aware of any matters which will prevent it from meeting its filing requirements for its first IFRS financial report.

**(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)**

## **Risk and Uncertainties**

*The risks and uncertainties discussed below are not the only ones the Company faces. Additional risks and uncertainties not presently known to it or that the Company currently considers immaterial also may impair its business operations and cause the price of its common shares to decline. If any of the following risks actually occur, its business may be harmed and its financial condition and results of operations may suffer significantly.*

### ***Competition***

The market for the Company's products is highly competitive. The Company has experienced, and expects to continue to experience, substantial competition from numerous competitors whom it expects to continue to improve their products and technologies. Competitors may announce and introduce new products, services or enhancements that better meet the needs of end-users or changing industry standards, or achieve greater market acceptance due to pricing, sales channels or other factors. Competitors may be able to respond more quickly than RuggedCom to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

The Company competes with a wide range of competitors of varying sizes. New competitors or alliances among competitors could emerge. Many of the Company's competitors and potential competitors have significantly greater financial, technical, marketing or service resources than RuggedCom with which to pursue research and development, marketing and distribution of their products. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than RuggedCom.

Certain of RuggedCom's original equipment manufacturers have or could acquire the internal capabilities to manufacture their own solutions competitive to RuggedCom's rather than reselling the Company's products, which could result in a reduction in its sales.

While many of the Company's direct competitors today are relatively small, consolidation is taking place in the industry resulting in competitors who are larger and better capitalized and therefore have greater resources. In addition, if two or more of the Company's competitors were to merge or partner, the change in the competitive landscape could adversely affect the Company's ability to compete effectively.

If RuggedCom's competitors offer deep discounts or more favourable purchase terms on certain products or services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any changes would likely reduce its margins and could adversely affect its operating results, particularly if it is unable to affect the changes with a corresponding increase in the quantity of sales or through lower spending. In addition, its level of product gross margin may not be sustainable as it enters new geographic regions, adjusts its product mix or if it experiences increased warranty costs.

### ***Growth in Key Markets***

The overall market for rugged communications networking solutions has experienced significant growth in the past few years. There can be no assurance that the market for its solutions will continue to grow or grow as quickly as it currently anticipates, that firms in its target markets will adopt its solutions, or that it will be able to establish additional markets for its solutions.

### ***Growth Management***

The growth of the Company's operations places a strain on managerial, sales, financial and human resources personnel as well as its physical plant. The Company's ability to succeed will depend in large part upon its ability to manage future growth to successfully expand all aspects of its business in a timely and cost effective manner consistent with the sales growth the Company experiences.

### ***Dependence on Electric Power Industry***

The Company currently derives approximately two-thirds of its revenue from sales to the electric power market and it expects revenue from these sales to continue to account for a substantial portion of its revenue for the foreseeable future. The Company is highly dependent for its sales on the ongoing electric power market migration to Internet Protocol-based communications networks throughout the non-office environment and there can be no assurance that the migration will continue. For example, as the electric power market is a regulated industry, the migration to Internet Protocol-based networks could be adversely affected by legislative developments.

### ***Impact of the Global Financial Crisis***

Recent events in the global financial markets have created a challenging environment for many businesses. Events seemingly unrelated to us or to our industry may adversely affect us over the course of time. It is possible that credit contraction in the financial markets and reduced economic activity may adversely affect our customer base, which could result in the postponement or cancellation of customers' projects. As a result, these customers may need to reduce their purchases of our products or services and we may experience greater difficulty in receiving payment for the products and services that these customers purchase from us. These events, or any other events caused by volatility in world financial markets or a decline in economic growth, may have a material adverse effect on the Company's business, operating results and financial condition.

### ***Currency Fluctuations***

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies.

### ***Acquisitions***

The Company acquired WiNetworks Ltd. on September 17, 2009 and certain assets of Bow Networks Inc. on October 29, 2010 and may engage in additional selective acquisitions. There is a risk that it will not be able to identify suitable acquisition candidates available for sale at reasonable prices. It

is likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a number of other risks, including: diversion of management's attention; disruption to its ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development. In addition, if the Company proceeds with an acquisition, its available cash may be used to complete the transaction, diminishing its liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

### ***Regulation***

Certain components of the Company's products may be subject to current or future regulation, including relating to environmental protection, for example, lead solder and wireless solutions. Regulatory agencies may make rulings or adopt new standards with which its solutions may need to be compliant. The timing and nature of these rulings or adoption of new standards may impact future sales to the Company's customers, its ability to conform its solutions and/or to retain its market position.

In addition, in the future the Company may be required to comply with substance bans and product/component take-back requirements that would make the Company responsible for recycling and disposing of certain of its products/components that it has sold.

### ***Reliance on Key Personnel***

The Company depends on the services of its senior management and key professional, technical, sales, marketing and other specialized personnel to develop, market and support its solutions and develop the business. Most of its employees are not subject to non-competition restrictions that would prohibit them from leaving the Company to immediately join or form competitive businesses. The Company's success is highly dependent on its continuing ability to identify, hire, train, motivate and retain appropriate personnel. Competition for these personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain them. To do so, it may be necessary for the Company to materially increase the compensation it pays.

### ***Reliance on Third-Party Suppliers***

The Company relies on third-party suppliers, in some cases sole suppliers, to provide components, such as processor chips, necessary for the manufacture of its products. It depends on these suppliers to allocate to the Company a portion of their manufacturing capacity sufficient to meet its needs, to produce components of acceptable quality and to deliver those components to the Company on a timely basis at acceptable prices. The Company is not a major customer of any of its key suppliers and consequently they may be unwilling or unable to devote sufficient resources to meet the Company's requirements. Should a shortage of components occur (e.g. due to production interruption or a worldwide shortage of certain parts), a supplier may limit the number of components it may purchase. Additionally, a supplier may determine to cease production of components supplied to the Company. If it is unable to obtain sufficient allocations of these components in a timely manner, or a supplier ceases production of any if the components it relies on, production and shipment of products will be delayed. Reliance on third-party suppliers also reduces its control over production costs, delivery schedules, reliability and quality of materials.

### ***Manufacturing and Reliance on Contract Manufacturers***

The Company has one manufacturing and assembly facility which is located in Concord, Ontario at which final assembly and testing of most of its products is completed. Should the operation of the facility be interrupted for a significant period of time for any reason, its ability to fulfill orders in a timely fashion will be significantly adversely affected.

If any of the Company's outsourced manufacturers are unable or unwilling to continue manufacturing its products in required volumes and quality levels, the Company will have to identify, qualify, select and implement acceptable alternative manufacturers, which could be time consuming and costly. In addition, an alternate source may not be available to the Company or may not be in the position to satisfy the Company's production requirements at commercially reasonable prices and quality. Therefore, any significant interruption in contract manufacturing would result in the Company being unable to deliver the affected products to meet its customer orders.

### ***Reliance on Third Party Channel Partners***

The Company is dependent upon its ability to establish and develop new relationships and to build on existing relationships with channel partners including manufacturer's representatives, distributors, original equipment manufacturers, systems integrators and consultants. It currently relies and expects to rely upon these relationships in the future to sell or facilitate the sale of a material portion of its solutions. These third parties may provide the Company with direct or indirect customer referrals, cooperate with the marketing of its products and integrating its products in end-users' systems and infrastructure or include the Company as a specified supplier in their projects. It cannot provide assurance that it will be successful in maintaining or advancing its relationships with them. In addition, it cannot provide assurance that those with whom it currently has relationships will act in a manner that will promote the success of its solutions.

Some channel partners also sell products and services of the Company's competitors.

Some of the Company's competitors have been acquired by certain original equipment manufacturers with whom the Company has relationships, which could result in products and services of its competitors being favoured by them.

### ***Protection of the Company's Intellectual Property***

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve its intellectual property rights. Despite these precautions, it may be possible for third parties to obtain and use RuggedCom's intellectual property without its authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada and the United States. Furthermore, many key aspects of networking technology are governed by industry wide standards, which are freely available to all market entrants.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays and materially disrupt the conduct of its business.

### ***Rapid Technological Change***

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction by competitors of products embodying new technology and the emergence of new industry standards can render RuggedCom's existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if RuggedCom fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

### ***Product Defects and Liability Claims***

The Company is subject to proceedings and claims that may arise in the ordinary conduct of the business, which could include product and service warranty claims, which could be substantial. The Company's products are highly complex and sophisticated, and could contain design defects or software errors that are difficult to detect and correct. The Company provides product warranties that typically run for five years. If its products fail to perform as warranted and it fails to resolve product quality or performance issues in a timely manner, sales may be lost and it may be forced to pay damages. In addition, because its products are sold and marketed in different countries, the products must function in and meet the requirements of many different environments and be compatible with different systems. Any failure to meet customer requirements could materially affect its business, results of operations and financial condition. The occurrence of product defects and the inability to correct errors could result in the delay or loss of market acceptance of its products, material warranty expense, diversion of engineering and other resources from its product development efforts, and the loss of credibility with its customers, manufacturer's representatives, distributors, value added resellers, systems integrators, original equipment manufacturers and end-users, any of which could have a material adverse effect on the Company's business, operating results and financial condition.

The Company currently maintains product liability insurance coverage. The Company has not experienced a material product liability claim to date; however, if that claim were to arise it would likely be substantial in light of the use of its products in mission critical applications. A successful product liability claim could result in significant monetary liability and could seriously disrupt or harm its business.

### ***International Risk***

The Company's international operations are significant and it intends to continue to expand these international operations. RuggedCom's foreign operations face additional specific local risks, which may adversely affect the Company, including: changes in legal and regulatory requirements (including tariffs and other trade barriers); less favourable intellectual property laws; any loss of sales personnel in one of RuggedCom's small foreign offices that could result in a significant loss of sales in that foreign country; changes in local tax rates and other potentially adverse tax consequences (including the cost of

repatriation of earnings); collectibility of accounts in foreign jurisdictions; and burdens of complying with a wide variety of foreign laws, including changing import and export regulations.

The Company believes that its future growth depends in large part on its ability to increase its business in international markets. This will require significant management attention and financial resources, including capital to hire additional personnel and establish additional international facilities.

### ***Transfer Pricing***

The Company conducts business operations in various jurisdictions and through legal entities in Canada, United States, Germany and Israel. RuggedCom and its wholly-owned subsidiaries, RuggedCom (USA) Inc., RuggedCom Deutschland GmbH i. Gr., WiNetworks Ltd. and Ruggedcom Asia Pte. Ltd., provide solutions to, and may from time to time undertake certain significant transactions with, other currently existing or new subsidiaries in different jurisdictions. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where it carries on business could challenge RuggedCom's arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Company's transfer pricing policies, its income tax expense may be adversely affected and it could also be subjected to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on its future earnings and future cash flows.

### ***Economic and Geopolitical Uncertainty***

The market for RuggedCom's solutions depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company's control. In addition, acts of terrorism and the outbreak of hostilities, disease, and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause end-users to delay or cancel projects, reduce their overall information technology budgets or reduce or cancel orders for the Company's solutions, which could have a material adverse effect on its business, results of operations and financial condition.

### ***Fluctuations in Quarterly Results***

The Company's quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as seasonality, demand for its products, the size and timing of orders, progress on implementation of projects, the number, timing and significance of new product announcements by the Company and its competitors, the ability to develop, introduce and market new and enhanced versions of products on a timely basis, the level of product and price competition, changes in operating expenses, changes in the sales incentive strategy, sales personnel changes and general economic factors, among others. A significant portion of the Company's expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected.

The Company relies on individual purchase orders for product sales to customers and has no long-term customer supply contracts providing for specified sales. Because its quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of

conversion of its sales prospects into revenue could cause the Company to plan or budget inaccurately, and those variations could adversely affect its financial results.

### ***Dependence on Certain Licensed Intellectual Property***

The Company licenses certain technologies used in its products from third parties, including as part of ROS (Rugged Operating System). The termination of any of these licenses, or the failure of the licensors to maintain or update their products adequately, could delay its ability to ship solutions while it seeks to implement alternative technology offered by other sources that may require significant unplanned investments. In addition, alternative technology may not be available, and even if it is available it may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of its solutions or relating to current or future technologies to enhance the Company's product offerings. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

### ***Infringement of Intellectual Property Rights***

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used in the Company's solutions. Some of these patents may grant very broad protection to the owners of the patents. The Company has not undertaken a review to determine whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of these products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that it routinely provides to its end-users, manufacturer's representatives, distributors, value added resellers, systems integrators and original equipment manufacturers.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than RuggedCom and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than RuggedCom. Regardless of their merit, any such claims could be time consuming to evaluate and defend; result in costly litigation; cause product shipment delays or stoppages; divert management's attention and focus away from the business; subject the Company to significant liabilities and equitable remedies, including injunctions; require the Company to enter into costly royalty or licensing agreements; and require the Company to modify or stop using infringing technology.

The Company may be prohibited from developing or commercializing certain technologies and products unless it obtains a license from a third party. There can be no assurance that it will be able to obtain any such license on commercially favourable terms, or at all. If it does not obtain such a license, it could be required to cease the sale of certain of its solutions.

### ***Use of Open Source Software***

The Company uses certain open source software (such as Linux) in the development of certain of its software products, which are not maintained or supported by the original developers thereof. This

open-source software was developed originally by third parties over whom the Company has no control. The Company has no assurances that the Linux operating system and the Company's related components do not infringe on the intellectual property rights of others and the Company could be exposed to infringement claims and liability in connection with the use of such open source software. The Company conducted no independent investigation to determine whether the sources of that software have the rights necessary to permit the Company to use this software free of claims of infringement by third parties. The Company could be required to replace certain components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with its ability to support its customers and/or require the Company to pay licensing fees. Certain open source software licenses provide that any software that makes use of or incorporates components distributed under that license will itself become subject to the same general distribution rights and other terms of that license. As a result, there is a risk that third parties, including RuggedCom's competitors, could have the right to use and distribute certain elements of the Company's software products which is based on open-source software.

### ***Health and Safety***

In recent years there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless equipment sources, including allegations that these emissions may cause cancer. The Company's wireless communications products emit electromagnetic radiation. Health and safety issues related to its products may arise that could lead to litigation or other actions against the Company or to regulation of certain of its product components. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results of operations.

### ***Other Tax Matters***

Although management is of the view that all expenses and tax credits claimed by the Company, including research and development expenses and investment tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, the Company's operating results could be adversely affected. If the taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, its operating results will be adversely affected.

The majority of the Company's research and development activities are conducted at its headquarters in Concord, Ontario. The Company participates in government programs with both the federal Government of Canada and the Government of Ontario that provide investment tax credits based upon qualifying investment expenditures. These expenditures primarily consist of the salaries of the persons conducting research and development activities. If these investment tax credits are reduced or eliminated, the Company's business, financial condition and results of operations may be adversely affected.